

STATE OF WISCONSIN

SENATE CHAIR
MARK MILLER

317 East, State Capitol
P.O. Box 7882
Madison, WI 53707-7882
Phone: (608) 266-9170



ASSEMBLY CHAIR
MARK POCAN

309 East, State Capitol
P.O. Box 8952
Madison, WI 53708-8952
Phone: (608) 266-8570

JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Mark Miller
Representative Mark Pocan

Date: January 22, 2010

Re: State of Wisconsin Investment Board Report on Credits Generated
with Securities Brokerage Firms

Attached is a report on credits generated with securities brokerage firm from the State of Wisconsin Investment Board, pursuant to s. 25.17(17), Stats.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

MM:MP;jm



State of Wisconsin Investment Board

MAILING ADDRESS
PO BOX 7842
MADISON, WI 53707-7842

121 EAST WILSON ST
MADISON, WI 53703
(608) 266-2381
FAX: (608) 266-2436

January 19, 2010

Honorable Mark Miller, Co-Chair
Joint Committee on Finance
317 East, State Capitol
Madison WI 53702

Honorable Mark Pocan, Co-Chair
Joint Committee on Finance
309 East, State Capitol
Madison WI 53702

Dear Senator Miller and Representative Pocan:

Section 25.17 (17), Stats., directs SWIB to provide you with an annual report regarding credits ("soft dollars") generated with securities brokerage firms and describe how we used those credits to acquire investment research services.

As indicated in prior year reports, SWIB staff and trustees decided in 2005 to stop generating the soft dollar credits. All credits that had accumulated in previous years were fully expended in 2006. No new credits have been generated since then. SWIB has no plans to generate any in the future.

Background

In the past, in addition to using brokerage firms that provided proprietary research, SWIB used a limited number of brokers known as "soft dollar brokers" to trade equity shares. With these brokers, SWIB accumulated credits that it could use to acquire third-party research or other purchases permitted under federal regulations.


Federal law and SEC regulations define allowable uses of soft dollars. The use of soft dollars, however, came under scrutiny a few years ago as questions arose about their proper use. The industry's professional standards organization, CFA Institute, urged investment managers to eliminate the use of soft dollars due to concerns about how some firms used them.

Although audits showed that SWIB had abided by SEC regulations in using the soft dollars, the Trustees decided in 2005 to eliminate generating them in the future. Despite SWIB's limited use of soft dollars in prior years, the Trustees and staff believed that eliminating them would increase the transparency of our trading commissions and was in the best interests of the funds we invest. All services previously paid with soft dollars are now paid directly by SWIB.

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I hope you find this information responsive to the statutory reporting. Please feel free to contact me with any questions you may have about this report or other Investment Board matters.

Sincerely,

A handwritten signature in black ink, appearing to be 'K. Bozarth', with a long horizontal flourish extending to the right.

Keith Bozarth
Executive Director

cc: Members, Joint Committee on Finance
Robert Lang, Legislative Fiscal Bureau
Joe Malkasian, Clerk of Joint Finance Committee